



GenPro

Financial Analysis and Benchmarking Update

August 2024

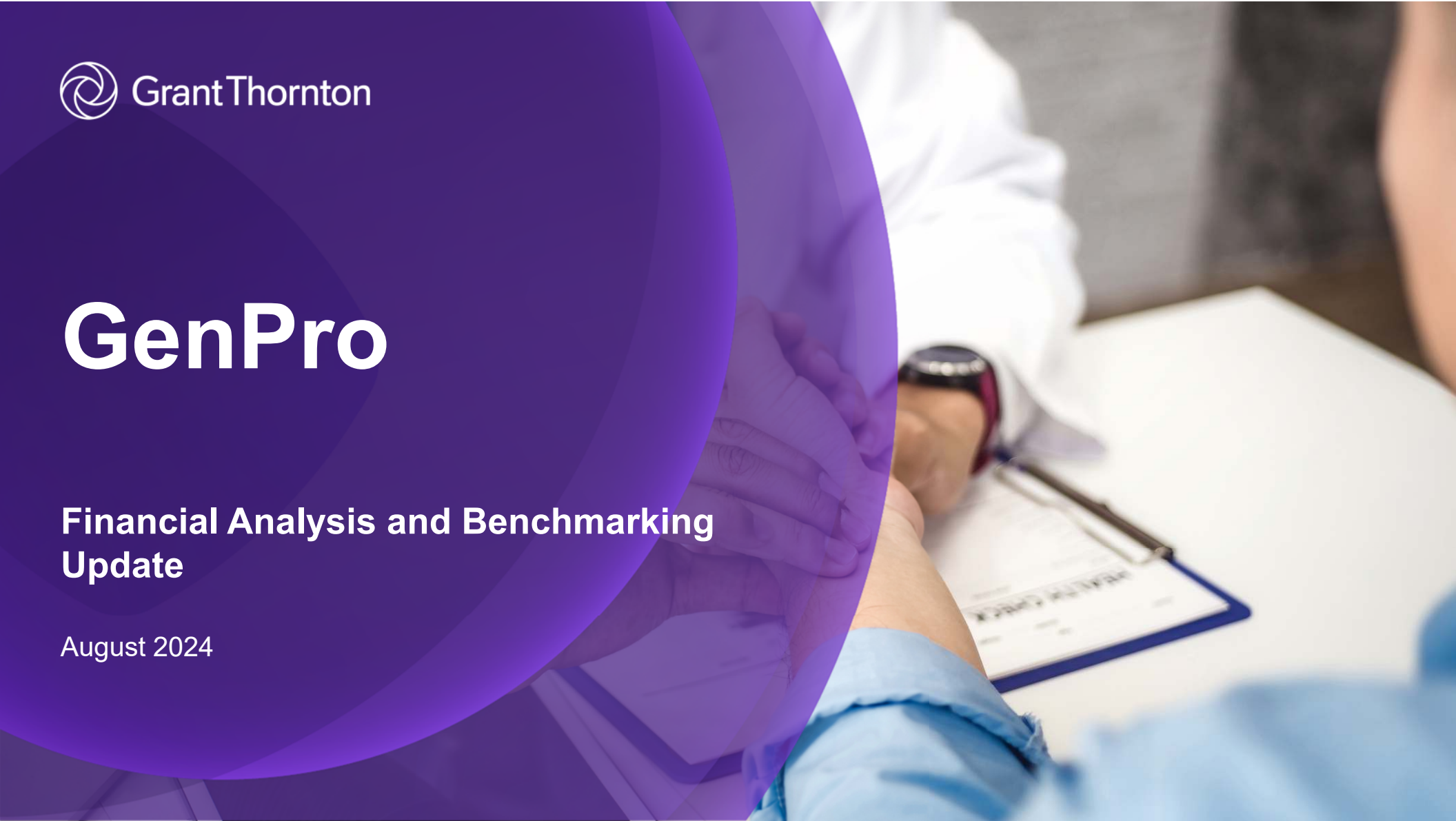


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Background and Scope



Background

General Practice Owners Association of Aotearoa New Zealand Incorporated (“GenPro”) is a body established and mandated to provide formal representation to its members who are owners of General Practice and Urgent Care Centres throughout New Zealand.

GenPro has previously engaged (2023) Grant Thornton New Zealand to conduct financial analysis and benchmarking to produce insights into historic trends for General Practice funding in New Zealand, the current number of GPs compared to other doctors and New Zealand’s healthcare spending compared to other OECD countries.

This report is an update with the latest available data.

Scope

The scope of this report & analysis includes:

- An analysis of changes to the Government Capitation Rate¹, Input-cost Related Adjustment Rate², the allowable Patient Co-Payment Fee Increase, and CPI³ over a historical 20-year period.
- A comparison of the change in the utilisation rate of General Practice to the age demographic of New Zealand’s population.
- A comparison in the growth in the number of GPs over the last 22 years compared to the growth in the total number of doctors in New Zealand.
- A comparison of the value of New Zealand health funding as a percentage of GDP compared to other OECD nations.

1 Changes to actual Government funding of General Practices through the Capitation system.

2 A weighted measure calculated by Sapere using three healthcare-related cost indices.

3 Consumer Price Index.

Executive summary

Demand for General Practice (GP) services is increasing, yet funding has historically fallen short of both general NZ economic and GP specific cost pressures.

This report analysed the variations in the increases to each of

- the Input-cost Related Adjustment Rate,
- the Patient Co-Payment Fee Increase,
- the CPI rate, and
- the actual increase of Government funding to GPs through Capitation Rate increases.

Analysis showed between 2005 and 2024 increases to the Capitation Rate have fallen short of both the Input-cost Related Adjustment Rate and CPI. The shortfall in Government Capitation funding has led to a greater increase in the Patient Co-Payment.

When comparing the compounded differences in these rates during this period¹, we found:

1. The Capitation Rate has frequently been below the input recommendations. Funding would be **6.9% higher** if the recommended Input-cost Related Adjustment Rate was followed.
2. Had the Capitation Rate changes met CPI, funding would be **3.9% higher**.
3. The Input-cost Related Adjustment Increased 73.6%, while the **Patient Co-Payment fee** rose by **86.4%**, compared to the **Capitation Rate** which rose **62.4%**.

Furthermore, this analysis details:

- The GP-specific Input-cost Related Adjustment Rate has historically not addressed the economy-wide cost pressures represented by CPI and has been slow to respond to spikes in inflation.
- New Zealand's healthcare spend as a percentage of GDP has consistently lagged behind leading OECD nations.
- The demands placed on General Practices have consistently increased alongside growth in New Zealand's aging population.
- Growth in the number of vocational doctors has outstripped growth in the number of GPs.

¹ Measured in 2004 dollars.

Executive summary

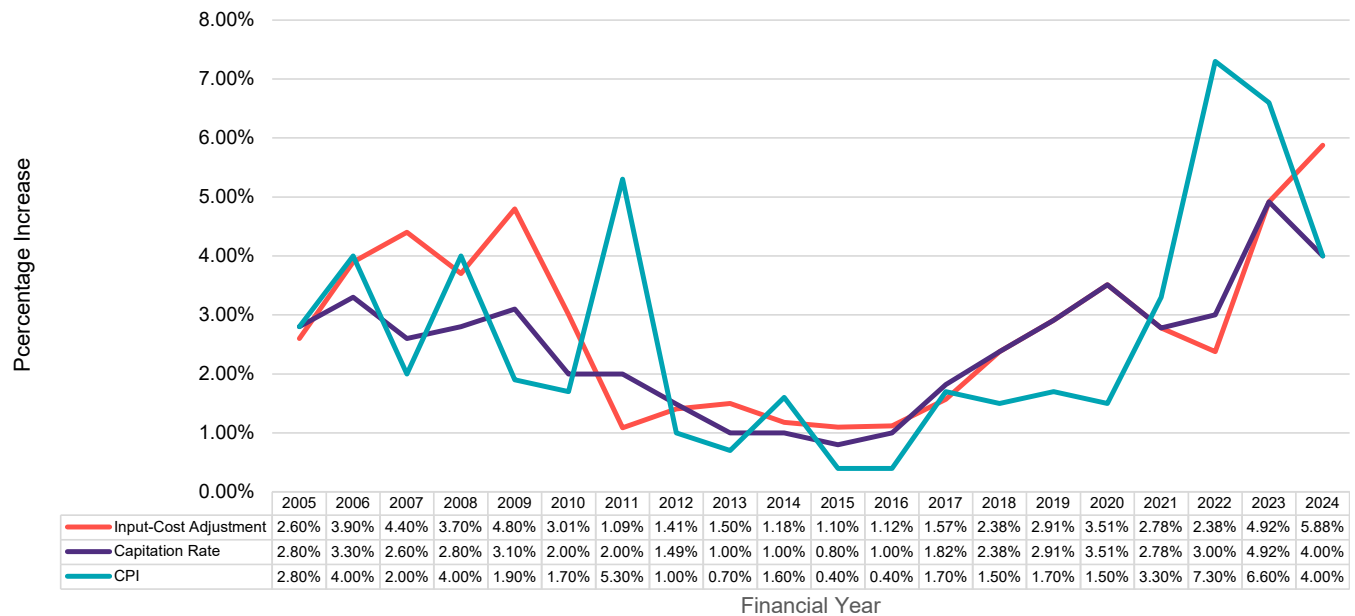
Funding for General Practice in New Zealand has historically fallen short of both the economy-wide and GP-specific cost pressures represented by CPI and Input-cost Related Adjustment Rate respectively.

Actual Government funding increases for General Practice through increases to the Capitation Rate have not kept pace with either the general increase in prices (CPI) or the recommended increases outlined by the Input-cost Related Adjustment Rate.

Furthermore, recent funding increases have not made up for historic shortfalls in funding, whereby the change to the Capitation Rate did not meet either GP-specific or economy-wide cost pressures represented by the Input-cost Related Adjustment Rate and CPI respectively.

This report details the quantum of the funding gap experienced by General Practice arising from the Capitation Rate changes not meeting either of CPI or the Input-cost Related Adjustment Rate when measured over the last 20 years.

Annual changes in Capitation Rate, Input-cost Related Adjustment Rate, and CPI from 2005 to 2024



3 Analysis

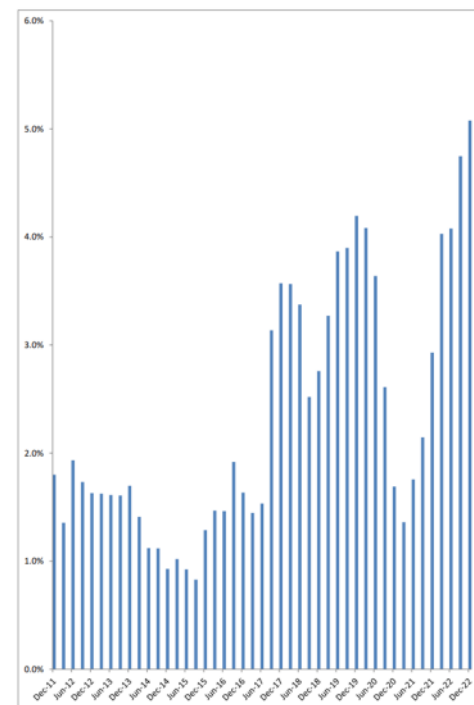
Input-cost Related Adjustment Rate explainer

The Input-cost Related Adjustment Rate is a model designed by Sapere using three indices to approximate the cost pressure impacts faced by General Practice.

The indices used to calculate the input-cost adjustment rate are:

- 1. Labour Cost Index** (Health Care and Social Assistance): the cost of wages and salaries for health care and social assistance workers
- 2. Producer Price Index:** the change in prices paid by providers of goods and services.
- 3. Capital Goods Price Index:** The cost of non-residential buildings, and the cost of plant, machinery and equipment.

This is intended to inform the Capitation rate increase decision made by Te Whatu Ora – Health New Zealand.



Patient Co-Payment Fee Increase explainer

The Patient Co-Payment Fee Increase is calculated based on the Input-cost Related Adjustment, and the Capitation Rate Increase to Government Funding.

The Patient Co-Payment Fee Increase is the allowable increase to the patient co-payment based on the 50/50 split of patient fees and the Government funded Capitation Rate. Following Sapere's calculation of the Input-cost Related Adjustment, and the subsequent Government funding increase through the Capitation Rate, the Patient Co-Payment Fee Increase is determined.

When the Capitation Rate does not meet the Input-cost Related Adjustment, the Patient Co-Payment Fee Increase will be higher to make up for the shortfall (see year 13/14 in the images to the left). In cases where the Capitation Rate is higher than the Input-cost Related Adjustment, the Patient Co-Payment Fee Increase is lower (see year 11/12 in the images to the left).



	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19
Input-cost adjustment	1.09%	1.41%	1.50%	1.18%	1.10%	1.12%	1.57%	2.38%

	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19
Government adjustment	2.0%	1.49%	1.0%	1.0%	0.8%	1.0%	1.82%	2.38%

	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19
Reasonable fee increase	0.19%	1.34%	2.01%	1.37%	1.40%	1.25%	1.32%	2.38%

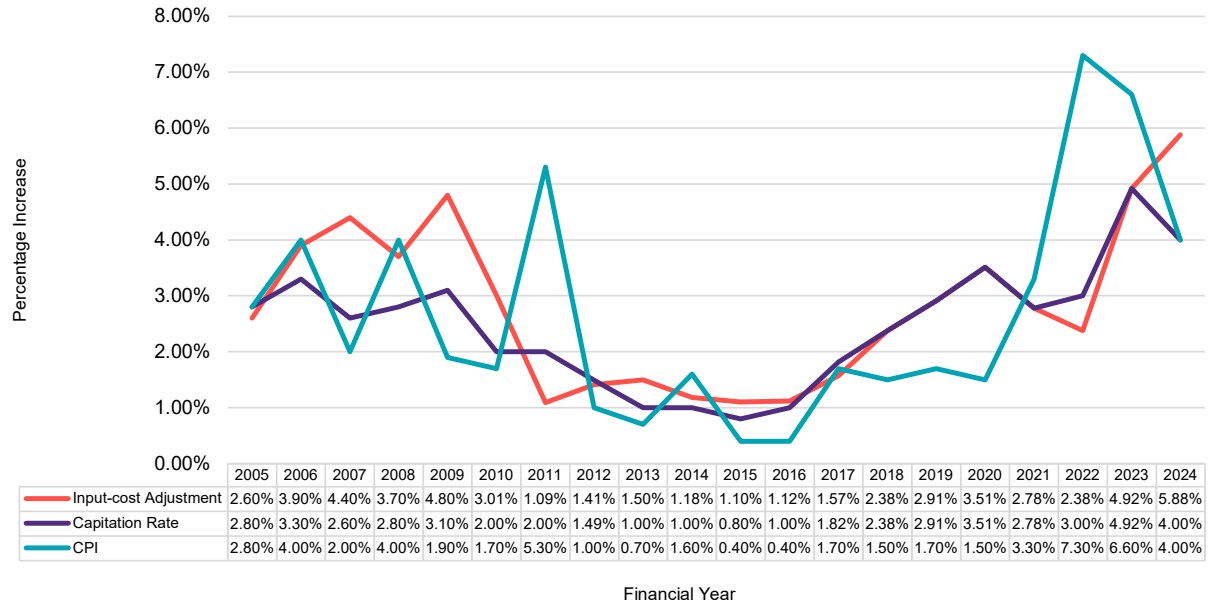
Government funding increases for General Practices have failed to keep pace with both the Input-cost Related Adjustment Rate and the CPI

Actual funding increases through Capitation Rate increases have been inconsistent in meeting either CPI or the Input-cost Related Adjustment Rate between 2005 and 2024.

When measured against each of CPI and the Input-cost Related Adjustment Rate individually (see Slides 9 & 10), increases to the Capitation Rate over time have not covered the cost pressures represented by either index.

General Practice funding would be 3.92% higher had Capitation Rate changes matched CPI, or 6.90% higher had it matched the Input-cost Related Adjustment Rate.

Annual changes in Capitation Rate, Input-cost Related Adjustment Rate, and CPI from 2005 to 2024



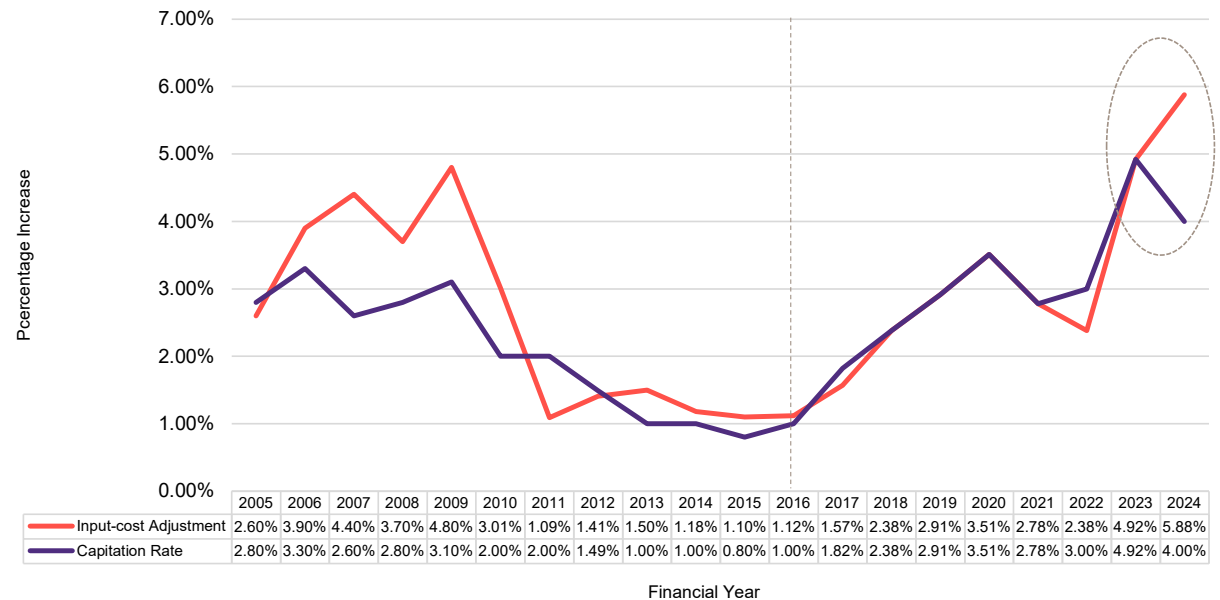
For the first 10 years of the data set, actual funding consistently fell short of what the Input-cost Related Adjustment Rate suggested

Across the 20 years of available data, actual funding increases fell short of the Input-cost Related Adjustment Rate on ten occasions, including most recently in 2024.

On the remaining ten occasions, the Input-cost Related Adjustment Rate was exceeded by Capitation on six occasions and equaled on the remaining four.

Notably, in the 11-year period between 2006 and 2016, funding for General Practices met or exceeded the Input-cost Related Adjustment Rate just twice.

Annual changes in Capitation Rate and the Input-cost Related Adjustment from 2005 to 2024

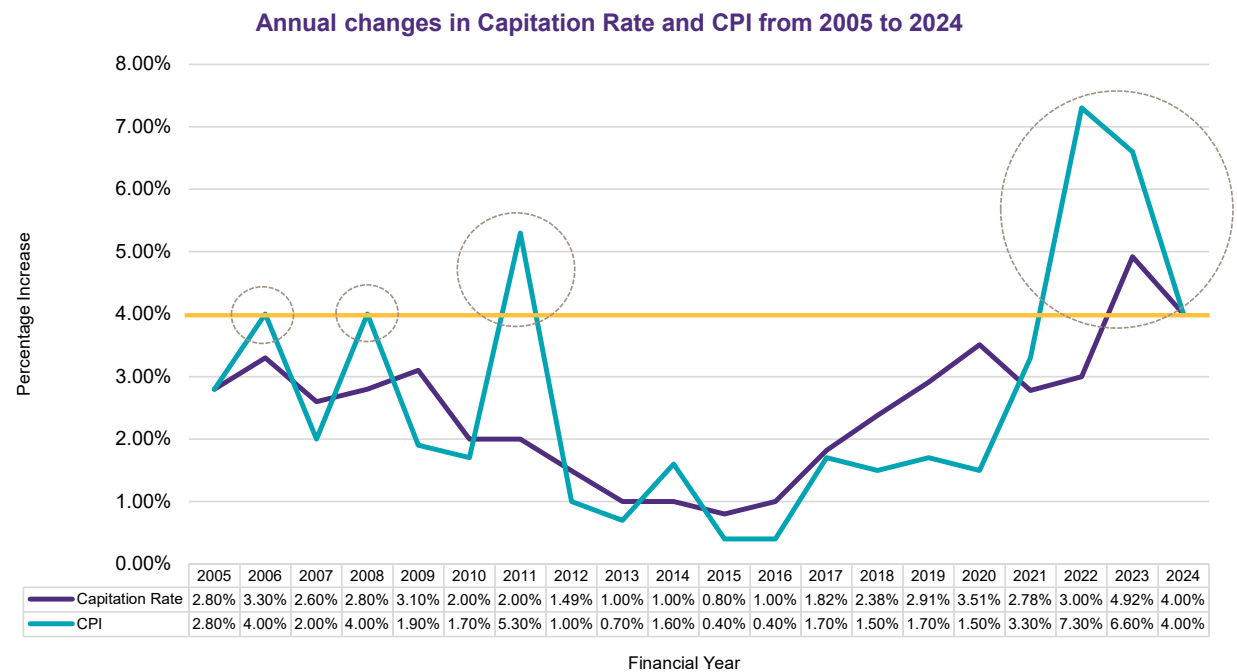


Actual funding increases have failed to keep pace with CPI, especially when CPI changes rapidly

CPI has been 4% or higher on five occasions since 2005, and actual funding increases have been above 4% only once in the same period.

When each figure is measured in 2004 dollars, actual funding increases have cumulatively fallen short of CPI by 3.92%.

Actual funding has decreased over time in relation to the value of a New Zealand dollar. The effect of this is the purchasing power of GP funding has decreased since 2005.



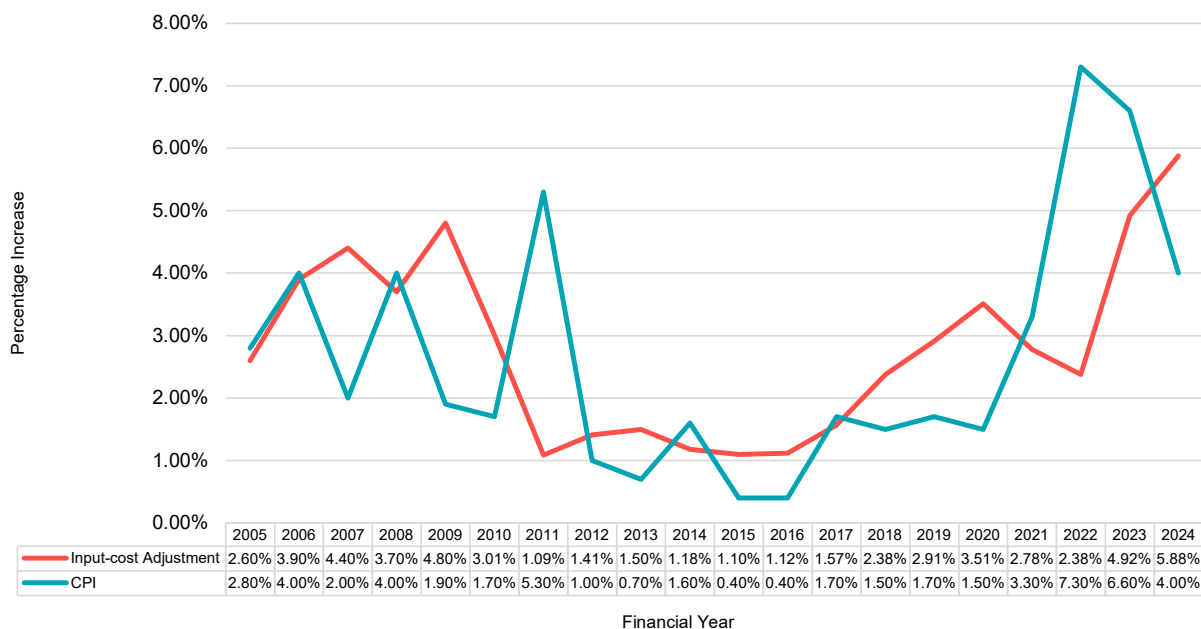
The Input-cost Related Adjustment Rate has historically been slow or unable to respond to spikes in inflation

The Input-cost Related Adjustment Rate responds more slowly than CPI, and with a lag. The result is the suggested funding to GPs is lower than the costs they experience driven by CPI.

This is evident most recently in 2024, where the Input-cost Related Adjustment Rate increased 5.88% following the high CPI rates between 2021 to 2023.

The cumulative increase in the Input-cost Related Adjustment Rate between 2021 to 2024 is 16.8% which is short of the cumulative increase in CPI of 22.8%¹.

Annual changes in the Input-cost Related Adjustment Rate and CPI from 2005 to 2024



¹ Figures obtained by using 2021 as a base year and applying the rates of CPI and the Input-cost Related Adjustment Rate between 2021 and 2023.

Shortfalls in Capitation Rate Increases have led to higher Patient Co-Payment Fee Increases

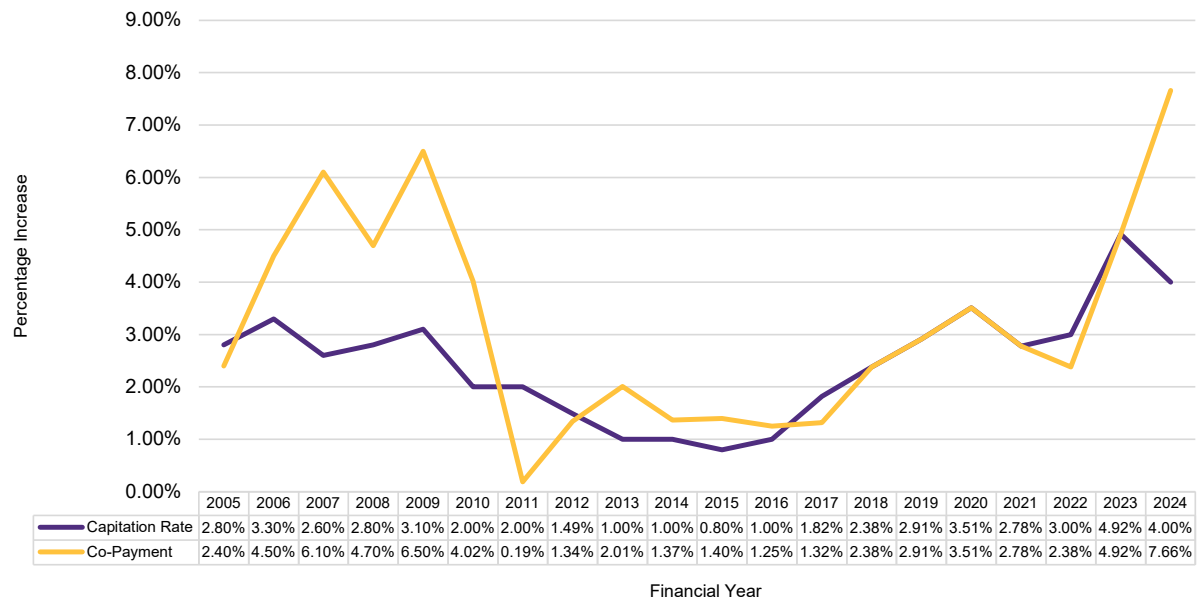
Increases to the Capitation Rate have in many cases fallen short of recommended Input-cost Related Adjustment Rate, leading to larger increases to the Patient Co-Payment Fee Increase

In 2024, the Input-cost Related Adjustment Rate increased 5.88%. The Government's Capitation Rate increase was 4.00%, resulting in a 7.66% increase to the Patient Co-Payment Fee.

Since 2005, Patient Co-Payment Fee increases have exceeded the Capitation Rate increase on 10 occasions. The Capitation Rate has exceeded the Patient Co-Payment Fee Increase only 5 times.

The result of this is that since 2005, the Patient Co-Payment Fee Increase has increased 86.4%, compared to the 62.4% increase to the Capitation Rate.

Annual changes in Capitation Rate and the Patient Co-Payment Fee Increase from 2005 to 2024



1 Figures obtained by using 2004 as a base year and applying the rates of the Capitation Rate and Patient Co-Payment Fee Increases between 2005 and 2024.

Historic underfunding has created pressures

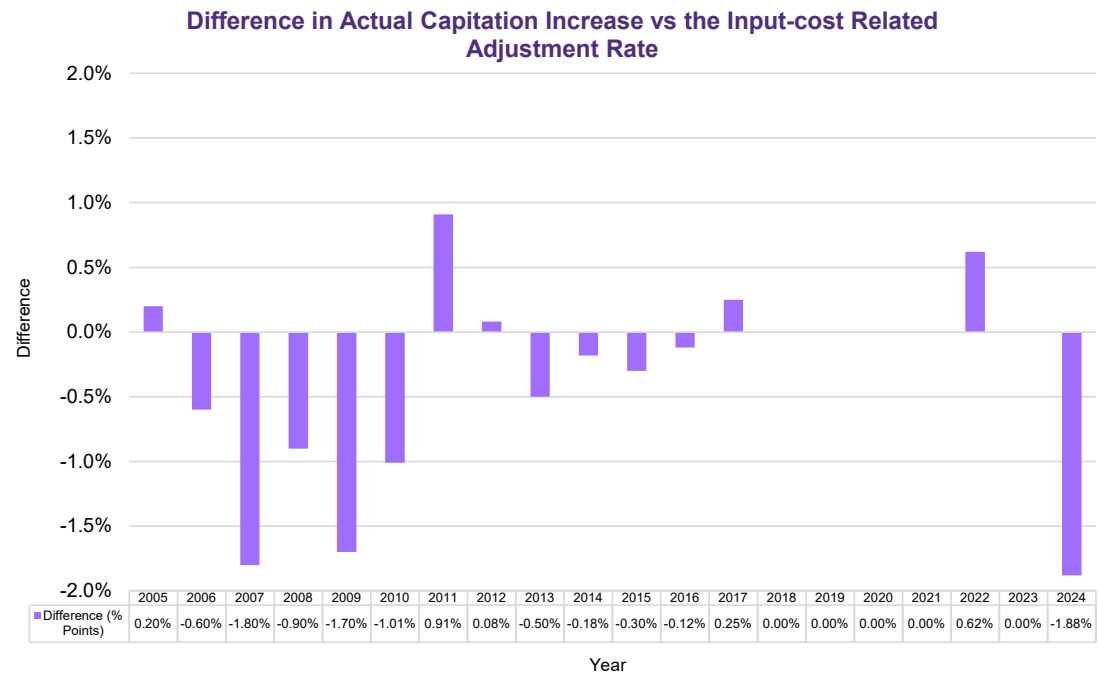
Despite actual funding increases meeting or exceeding the Input-cost Related Adjustment Rate between 2018 and 2023, historic underfunding has caused cost pressures on General Practice that are yet to be corrected.

To demonstrate the impact of actual funding previously not meeting the Input-cost Related Adjustment Rate, the difference between the Capitation Rate and the Input-cost Related Adjustment Rate between 2005 and 2024 is shown here.

As mentioned before, Capitation Rate increases have only been above the Input-cost Related Adjustment Rate increase in five of the last 20 years.

Additionally, Capitation Rate changes fell short of the Input-cost Related Adjustment Rate between 2006 and 2010, and again in 2024 by 1.88%, the largest shortfall in the data set.

The 2006 to 2015 shortfalls have not been made up for in more recent years where Capitation Rate changes met or exceeded the Input-cost Related Adjustment Rate. The cumulative impact of this is detailed on the following slide.



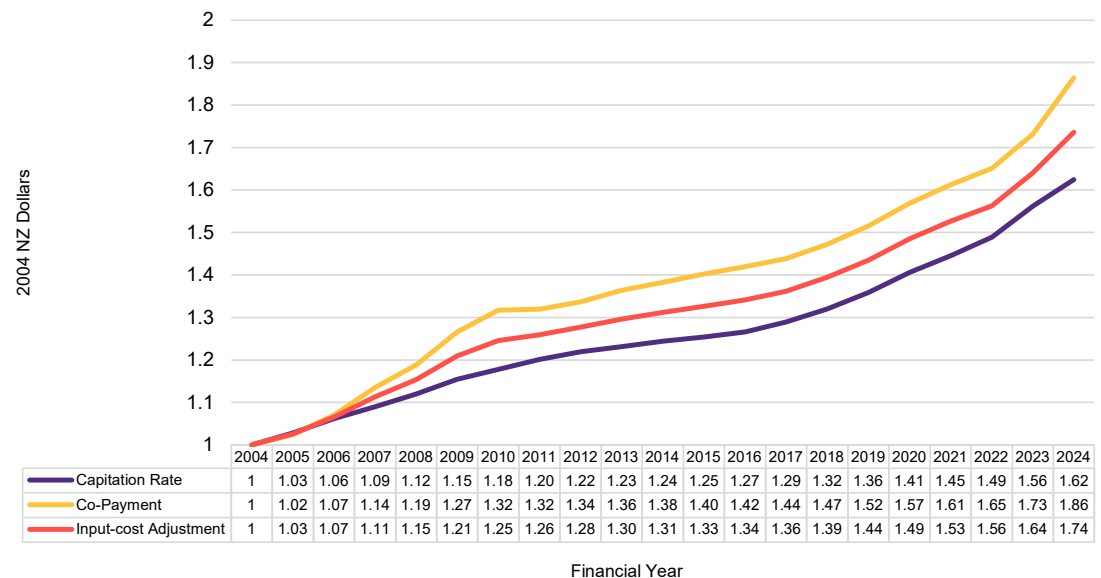
Historic Government funding shortfalls has resulted in patients paying a greater proportion

Indexing the Input-cost Related Adjustment Rate, the Capitation Rate, and the Patient Co-Payment Fee Increase to 2004 dollars demonstrates that over time Capitation Rate increases falling short of the recommended Input-cost Related Adjustment Rate have pushed costs onto patients.

Increases in Government funding fell short of the Input-cost Related Adjustment Rate between 2006 and 2010, 2013 and 2016, and again in 2024.

The compounding effect of this Government under funding is that the actual funding levels through Capitation Rate increases would be 6.9% higher had the recommended Input-cost Related Adjustment Rate been met. This shortfall has been passed onto patients through higher increases to the Patient Co-Payment Fee.

Accumulating change in the Capitation Rate, Patient Co-Payment Fee, and the Input-cost Related Adjustment Rate (2004 Dollars)



As the New Zealand population ages, the demands placed on General Practice have increased

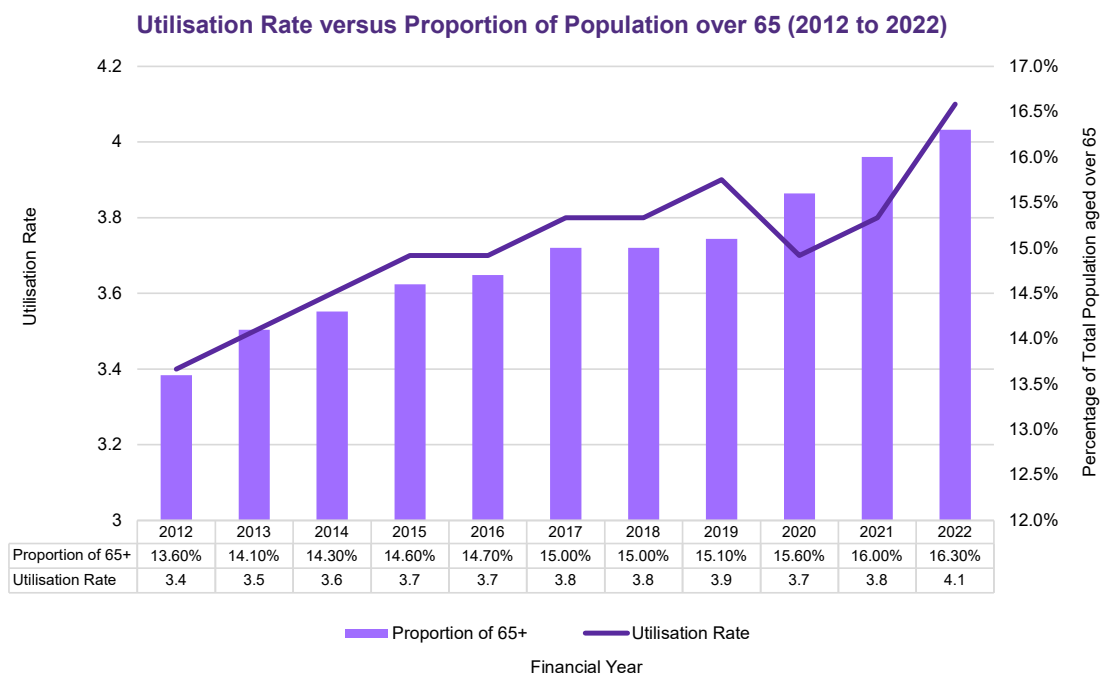
Utilisation rates rose 20.5% between 2012 and 2022. Concurrently, the proportion of Kiwis aged 65 and over rose 19.8%

This graph demonstrates the relationship between New Zealand's aging population (the proportion of the population aged 65 and over), and the rising demand of patient consultations by General Practitioners (referred to as the utilisation rate).

During this period, the utilisation rate increased by 0.7, alongside an increase to the population of New Zealanders aged 65 and over of 237,170. These are increases of 20.5% and 39.3% respectively.

As the proportion of New Zealand's population aged 65 and over has grown, the number of patient consultations GPs handle annually has risen alongside it to meet this high-need proportion of the population.

Notably, in 2023 the proportion of those aged 65 and over rose again, from 16.30% to 16.86%.

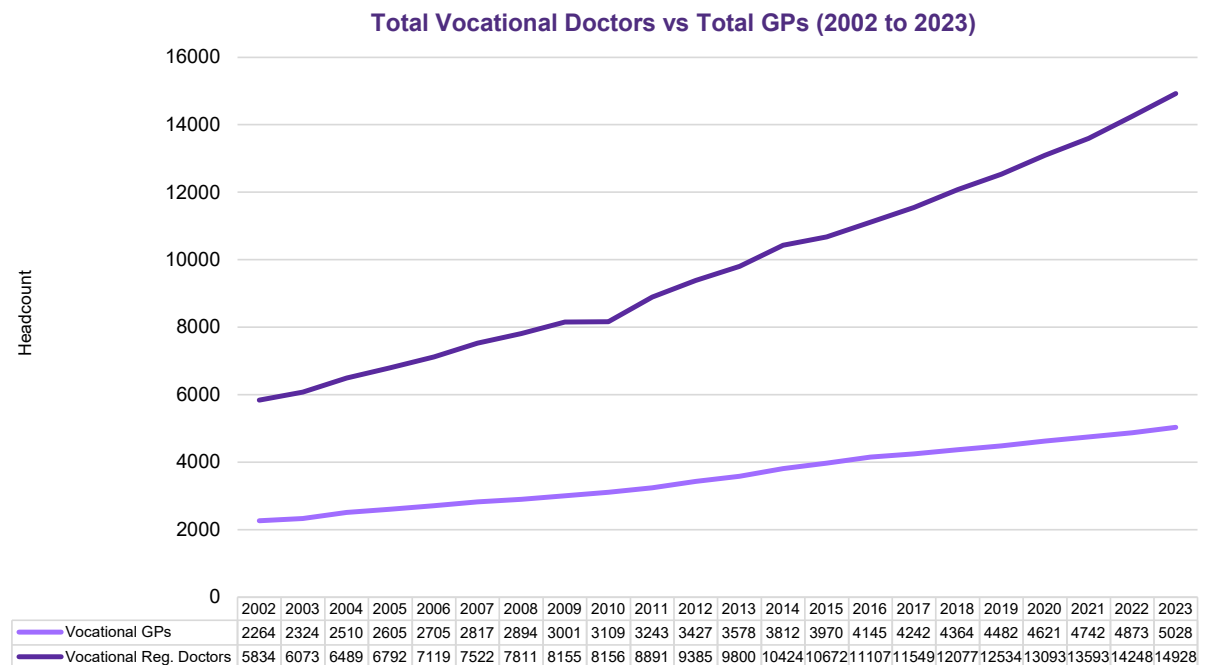


Growth in the number of GPs is lower than Doctors, and the gap is widening

The total number of vocational doctors is increasing at a faster rate than that of GPs and has been doing so consistently over the last two decades.

In 2002, GPs made up 38.8% of total doctors in New Zealand and in 2023, GPs make up just 33.6%.

This trend is evident when analysing the percentage growth of both total doctors and total GPs. Since 2002, the total number of doctors in New Zealand has risen from 5,834 to 14,928, a rise of 155%. This is a higher growth rate than the 122% rise in the number of GPs from 2,264 to 5,028 over the same period.



When benchmarked against the leading OECD nations, New Zealand's healthcare funding has historically not kept pace

New Zealand's healthcare spending as a proportion of GDP was compared against the following OECD data:

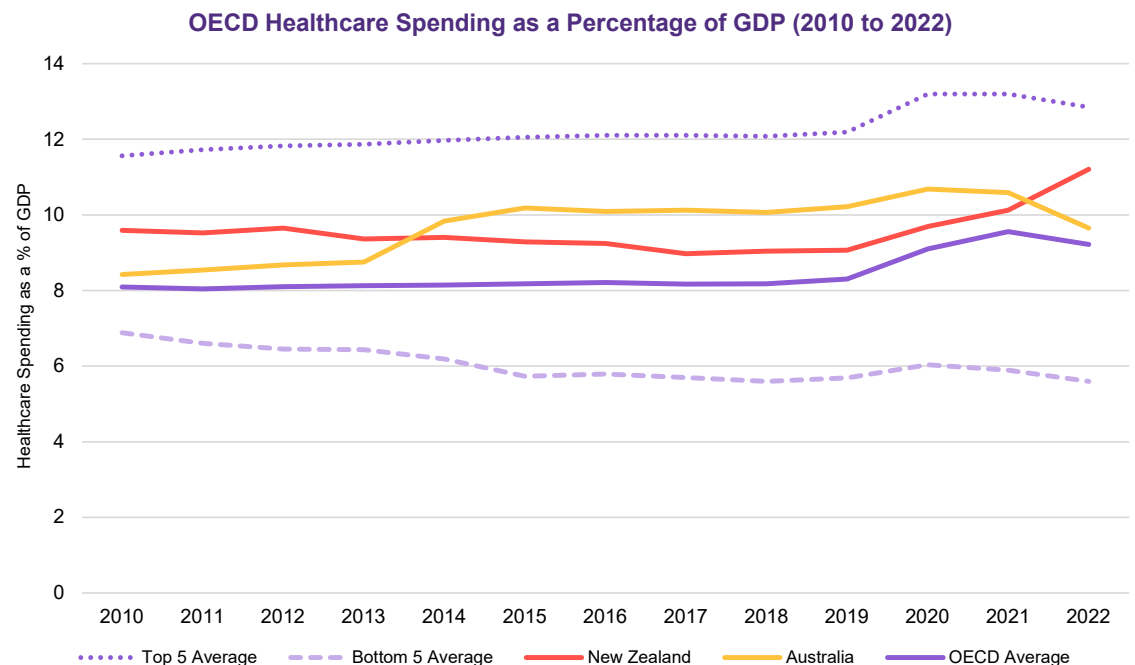
- the 5 highest & lowest nations by percentage spent¹
- Australia
- The OECD average.

New Zealand's healthcare spend as a percentage of GDP has been lower than the average spend of the top 5 OECD nations. At 11.2% of GDP, New Zealand trails the top 5 OECD nations, who sit at an average spend on healthcare of 12.8%.

NZ's spend as a percentage of GDP trended downwards from 2010 to 2019 and trended closer to the OECD average.

Since 2019 each of NZ, the OECD average, and top 5 rose.

2024 is the first year since 2014 that NZ's spend as a percentage of GDP has exceeded Australia's.



¹ Based on 2022 spend data.

4 Appendices

Glossary

Term	Definition
Input-cost Related Adjustment Rate	A weighted measure calculated by Sapere using three healthcare-related cost indices.
Patient Co-Payment Fee Increase	The maximum allowable increase to patient co-payments.
CPI	Consumer Price Index.
Actual Change	Ministry of Health agreed increase to all Capitation rates.
Capitation Rates	Government funding for GPs.
Vocational Doctors	Permanent registered doctors permitting the ability to work independently.
OECD	Organisation for Economic Co-operation and Development.

Data Sources & References

Data source	Graphs where data is used
<p><u>Actual Capitation Rate, Input-cost Related Adjustment Rate, and Patient Co-Payment Fee Increase</u></p> <p>Sourced from:</p> <ul style="list-style-type: none"> • Sapere: Annual Statement of Reasonable GP Fee Increases reports. • PSAAP Final Papers 2022/23 (for updated 2022/23 rate) • Te Whatu Ora Memo on Annual Uplift 2023/24 (for updated 2023/24 rate) 	<p>Capitation Rates: Comparison of Actual Capitation Rate, Input-cost Related Adjustment Rate, Patient Co-Payment Increase and CPI changes</p> <p>Capitation Rates: Comparison of Actual Capitation Rate, Patient Co-Payment Increase and CPI (cumulative)</p>
<p><u>CPI</u></p> <p>Sourced from: Stats New Zealand: Consumers price index, annual percentage change (Quarterly)</p>	<p>Capitation Rates: Comparison of Actual Capitation Rate, Input-cost Related Adjustment Rate, and CPI changes</p> <p>Capitation Rates: Comparison of Actual Capitation Rate and CPI (cumulative)</p>
<p><u>GP headcount/FTE data</u></p> <p>Sourced from: Medical Council of New Zealand</p>	<p>Comparison of vocational doctors and vocational GPs</p>
<p><u>OECD: percentage of GDP spend on healthcare</u></p> <p>Sourced from: OECD.Stat – Health expenditure and financing</p>	<p>OECD: Percentage of GDP spent on Healthcare</p>
<p><u>General Practice Utilisation rates</u></p> <p>Sourced from: OIA request to Health New Zealand (in 2023)</p>	<p>Comparison of utilisation and population over 65</p>
<p><u>Population over 65</u></p> <p>Sourced from: Infometrics</p>	<p>Comparison of utilisation and population over 65</p>



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